



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER MAGOFFIN COUNTY
SHERIFF'S SETTLEMENT - 1997 TAXES AND
SHERIFF'S SETTLEMENT - 1997 UNMINED COAL TAXES
SHERIFF'S SETTLEMENT - 1996 UNMINED COAL TAXES**

October 6, 1998 and January 28, 1998

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EXECUTIVE SUMMARY

CHALMER WIREMAN, SHERIFF 1997 SHERIFF TAX AND 1996 AND 1997 UNMINED COAL TAX AUDIT

On May 22, 2000, fieldwork was completed on the 1997 taxes and 1996 and 1997 unmined coal taxes of the former Magoffin County Sheriff. We have issued an unqualified opinion on the three financial statements. The Sheriff does not agree with the refunds due him and the like amounts due others.

Tax Account Financial Position:

The Sheriff needs to collect \$2,798 of refunds due him and distribute \$3,267 of funds to appropriately close out his account. Once the refunds are collected there is adequate money to pay all obligations.

Noncompliances:

- The Sheriff Should Have Had A Written Agreement To Protect Deposits
- The Sheriff Should Have Obtained A County Revenue Bond
- The Sheriff Should Have Paid Interest To The Board Of Education On A Monthly Basis

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Paul Salyer, Magoffin County Judge/Executive

Honorable Pat Montgomery, Magoffin County Sheriff

Honorable Chalmer Wireman, Former Magoffin County Sheriff

Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the former Magoffin County Sheriff's Settlement - 1997 Taxes and 1997 Unmined Coal Taxes as of October 6, 1998, and the 1996 Unmined Coal Taxes as of January 28, 1998. These tax settlements are the responsibility of the former Magoffin County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The former Sheriff prepared his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The former Sheriff signed the Management Representation Letter but does not agree with the refunds due him and the like amounts to be redistributed.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the former Magoffin County Sheriff's taxes charged, credited, and paid as of October 6, 1998, and January 28, 1998, in conformity with the basis of accounting described in the third paragraph.

To the People of Kentucky
Honorable Paul Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Paul Salyer, Magoffin County Judge/Executive
Honorable Pat Montgomery, Magoffin County Sheriff
Honorable Chalmer Wireman, Former Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance:

- Former Sheriff Chalmer Wireman Should Collect \$2,798 And Distribute \$3,267 To Close Out His 1997 Taxes
- Former Sheriff Chalmer Wireman Should Have Had A Written Agreement To Protect Deposits
- Former Sheriff Chalmer Wireman Should Have Obtained A County Revenue Bond
- Former Sheriff Chalmer Wireman Should Have Paid Interest To The Board of Education On A Monthly Basis

In accordance with Government Auditing Standards, we have also issued a report dated June 2, 2000, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 2, 2000

MAGOFFIN COUNTY
CHALMER WIREMAN, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1997 TAXES

October 6, 1998

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 275,564	\$ 175,359	\$ 588,704	\$ 218,502
Tangible Personal Property	42,896	25,123	64,773	52,419
Intangible Personal Property				21,082
Fire Protection	2,999			
Franchise Corporation	59,762	34,953	93,394	
Increased Through Erroneous Assessments	143	91	306	114
Penalties	4,521	2,852	9,544	3,712
Adjusted to Sheriff's Receipt	49	75	232	28
Gross Chargeable to Sheriff	<u>\$ 385,934</u>	<u>\$ 238,453</u>	<u>\$ 756,953</u>	<u>\$ 295,857</u>
<u>Credits</u>				
Discounts	\$ 3,711	\$ 2,300	\$ 7,375	\$ 3,506
Exonerations	3,440	2,189	7,349	2,727
Delinquents:				
Real Estate	28,042	17,945	59,906	22,235
Tangible Personal Property	519	304	784	797
Intangible Personal Property				406
Uncollected Franchise Corporation	14,200	8,398	22,843	
Total Credits	<u>\$ 49,912</u>	<u>\$ 31,136</u>	<u>\$ 98,257</u>	<u>\$ 29,671</u>
Net Tax Yield	\$ 336,022	\$ 207,317	\$ 658,696	\$ 266,186
Less: Commissions *	<u>14,568</u>	<u>8,811</u>	<u>26,348</u>	<u>11,600</u>
Net Taxes Due	\$ 321,454	\$ 198,506	\$ 632,348	\$ 254,586
Taxes Paid	321,525	198,570	632,315	254,710
Credit For Commissions Per KRS 134.290				<u>2,643</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (71)</u>	<u>\$ (64)</u>	<u>\$ 33</u>	<u>\$ (2,767)</u>

* and ** See Page 4

MAGOFFIN COUNTY
 CHALMER WIREMAN, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 1997 TAXES
 October 6, 1998
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	799,525
4% on	\$	658,696

** Special Taxing Districts:

Library District	\$	(88)
Health District		7
Extension District		9
Soil Conservation District		8
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Due Districts or (Refund Due Sheriff)	\$	<u><u>(64)</u></u>
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The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
CHALMER WIREMAN, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1996 UNMINED COAL TAXES

January 28, 1998

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 17,819	\$ 11,046	\$ 38,809	\$ 15,206
Penalties	9	5	20	8
Gross Chargeable to Sheriff	<u>\$ 17,828</u>	<u>\$ 11,051</u>	<u>\$ 38,829</u>	<u>\$ 15,214</u>
<u>Credits</u>				
Discounts	\$ 314	\$ 194	\$ 683	\$ 268
Exonerations	429	266	934	366
Delinquents	<u>1,569</u>	<u>973</u>	<u>3,419</u>	<u>1,340</u>
Total Credits	<u>\$ 2,312</u>	<u>\$ 1,433</u>	<u>\$ 5,036</u>	<u>\$ 1,974</u>
Net Tax Yield	\$ 15,516	\$ 9,618	\$ 33,793	\$ 13,240
Less: Commissions *	<u>660</u>	<u>409</u>	<u>1,352</u>	<u>562</u>
Net Taxes Due	\$ 14,856	\$ 9,209	\$ 32,441	\$ 12,678
Taxes Paid	<u>14,882</u>	<u>9,225</u>	<u>32,496</u>	<u>12,700</u>
Refunds Due Sheriff		**		
as of Completion of Fieldwork	<u><u>\$ (26)</u></u>	<u><u>\$ (16)</u></u>	<u><u>\$ (55)</u></u>	<u><u>\$ (22)</u></u>
* Commissions:				
4.25% on	\$ 38,374			
4% on	\$ 33,793			
** Special Taxing Districts:				
Library District	\$ (8)			
Health District	(5)			
Extension District	(1)			
Soil Conservation District	<u>(2)</u>			
Refunds Due Sheriff	<u><u>\$ (16)</u></u>			

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
CHALMER WIREMAN, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1997 UNMINED COAL TAXES

October 6, 1998

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for				
Unmined Coal	\$ 26,541	\$ 16,890	\$ 56,701	\$ 21,045
Omitted Taxes	1,536	899	3,847	1,731
Omitted Penalties and Interest	442	252	1,097	532
Penalties	174	87	442	201
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	\$ 28,693	\$ 18,128	\$ 62,087	\$ 23,509
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Discounts	\$ 514	\$ 327	\$ 1,098	\$ 407
Exonerations	252	161	539	200
Delinquents	346	220	738	274
Omitted Delinquents	1,089	621	2,761	1,315
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	\$ 2,201	\$ 1,329	\$ 5,136	\$ 2,196
	<hr/>	<hr/>	<hr/>	<hr/>
Net Tax Yield	\$ 26,492	\$ 16,799	\$ 56,951	\$ 21,313
Less: Commissions *	1,126	714	2,278	906
	<hr/>	<hr/>	<hr/>	<hr/>
Net Taxes Due	\$ 25,366	\$ 16,085	\$ 54,673	\$ 20,407
Taxes Paid	25,138	15,920	53,948	20,112
Refunds (Current and Prior Year)	269	171	574	213
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Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (41)</u>	<u>\$ (6)</u>	<u>\$ 151</u>	<u>\$ 82</u>
* Commissions:				
4.25% on	\$ 64,604			
4% on	\$ 56,951			
** Special Taxing Districts:				
Library District		\$ 7		
Health District		6		
Extension District		(11)		
Soil Conservation District		(8)		
		<hr/>		
Due Districts or (Refunds Due Sheriff)		<u>\$ (6)</u>		

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

October 6, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statements have been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statements. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should have pledged or provided sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the former Sheriff.

MAGOFFIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
October 6, 1998
(Continued)

Note 3. Property Taxes

A. Real and Personal Property Taxes

The real and personal property tax assessments were levied as of January 1, 1997. Property taxes were billed to finance governmental services for the year ended June 30, 1998. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 29, 1997 through June 30, 1998.

B. 1996 Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1996. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 24, 1998 through November 30, 1997.

C. 1997 Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1997. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 19, 1998 through August 30, 1998.

Note 4. Interest Income

A. Real and Personal Property Taxes

The former Magoffin County Sheriff earned \$1,975 as interest income on 1997 taxes. The former Sheriff distributed interest to the school district but did not make these payments monthly as required by statute. The Sheriff owes \$63 to the school district and \$127 to his fee account.

B. 1996 Unmined Coal Taxes

The former Magoffin County Sheriff earned \$162 as interest income on 1996 unmined coal taxes. The former Sheriff distributed the appropriate amount to the school district but did not make these payments monthly as required by statute, and the remainder was used to operate the Sheriff's office.

C. 1997 Unmined Coal Taxes

The former Magoffin County Sheriff earned \$99 as interest income on 1997 unmined coal taxes. The former Sheriff distributed the appropriate amount to the school district but did not make these payments monthly as required by statute, and the remainder was used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

MAGOFFIN COUNTY
CHALMER WIREMAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

October 6, 1998

STATE LAWS AND REGULATIONS:

1. Former Sheriff Chalmer Wireman Should Collect \$2,798 And Distribute \$3,267 To Close Out His 1997 Taxes
-

The former Sheriff should collect \$2,798 of refunds from the following taxing districts:

State	\$2,707
Extension	2
Library	<u>89</u>
Total	<u>\$2,798</u>

These refunds, along with available cash in the tax bank account, should be distributed as follows:

Fee Account	\$2,933
County	131
School Board	189
Health	8
Soil/Conservation	<u>6</u>
Total	<u>\$3,267</u>

We recommend the above collections and distributions be made promptly.

Former Sheriff Chalmer Wireman's Response:

These accounts were closed and all money paid appropriately to treasurer.

2. Former Sheriff Chalmer Wireman Should Have Had A Written Agreement To Protect Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The former Sheriff had a bank balance of \$859,969; FDIC insurance of \$100,000; and securities pledged of \$1,000,000 as of December 6, 1997. Even though the former Sheriff obtained pledged securities of \$1,000,000, the pledge was not evidenced by a written agreement. We recommend the Sheriff's office enter into a written agreement with the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Former Sheriff Chalmer Wireman's Response:

New law never advised us to do so.

MAGOFFIN COUNTY
CHALMER WIREMAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
October 6, 1998
(Continued)

3. Former Sheriff Chalmer Wireman Should Have Obtained A County Revenue Bond

During our audit, we found the former Sheriff did not obtain a county revenue bond. KRS 134.250 states the Sheriff shall annually, before he proceeds to collect the county levy execute a bond with the County Judge/Executive, with one or more sufficient sureties and in a definite penal sum fixed by the County Judge/Executive, conditioned for the faithful performance of his duties and pay over in due time to the proper person, as directed by the court, all money collected by him. This bond shall be approved by order of the County Judge/Executive, and when approved shall be recorded in the order book and safely kept by the county clerk. We recommend the Sheriff's office obtain a county revenue bond for all future tax collections.

Former Sheriff Chalmer Wireman's Response:

County Judge/Executive did not require a bond. Stated it was a waste of money.

Current County Judge/Executive's Response:

This is being done now.

4. Former Sheriff Chalmer Wireman Should Have Paid Interest To The Board of Education On A Monthly Basis

The former Sheriff did not pay interest to the Board of Education on a monthly basis as required by KRS 134.140(b) which states at the time of his monthly distribution of taxes to the district board of education, the Sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes. We recommend the former Sheriff's office pay the board of education their portion of the interest earned on a monthly basis. We also recommend the former Sheriff pay an additional \$63 to the Board of Education and \$127 to his fee account.

Former Sheriff Chalmer Wireman's Response:

All interest was paid monthly when we collected taxes. All interest was paid at final settlement.

Auditor's Response:

We observed that interest was not being paid on a monthly basis, but on a quarterly basis.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Paul Salyer, Magoffin County Judge/Executive
Honorable Pat Montgomery, Magoffin County Sheriff
Honorable Chalmer Wireman, Former Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the former Magoffin County Sheriff's Settlement - 1997 Taxes and 1997 Unmined Coal Taxes as of October 6, 1998, and the 1996 Unmined Coal Taxes as of January 28, 1998, and have issued our report thereon dated June 2, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- Former Sheriff Chalmer Wireman Should Have Had A Written Agreement To Protect Deposits
- Former Sheriff Chalmer Wireman Should Have Obtained A County Revenue Bond
- Former Sheriff Chalmer Wireman Should Have Paid Interest To The Board of Education On A Monthly Basis

Honorable Paul Salyer, Magoffin County Judge/Executive
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Magoffin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 2, 2000

